

**AGENDA**  
**FREMONT PUBLIC FINANCING AUTHORITY MEETING**  
**MARCH 8, 2011**  
**7:00 P.M.**

**1. CALL TO ORDER**

**2. CONSENT CALENDAR**

*Items on the Consent Calendar are considered to be routine by the Public Financing Authority and will be enacted by one motion and one vote. There will be no separate discussion of these items unless an Authority Member or citizen so requests, in which event the item will be removed from the Consent Calendar and considered in its normal sequence on the agenda. Additionally, other items without a "Request to Address the Public Financing Authority" card in opposition may be added to the consent calendar. (In the report section of the agenda, consent items are indicated by an asterisk.)*

2.1 Approval of Minutes – None.

**3. PUBLIC COMMUNICATIONS**

3.1 Oral and Written Communications

**4. PUBLIC HEARINGS – None.**

**5. OTHER BUSINESS**

**5.1 UPDATE ON REDEVELOPMENT AGENCY ISSUANCE OF TAX ALLOCATION BONDS**

Update on Proposed Issuance of 2011 Redevelopment Agency Tax Allocation Bonds

Contact Person:

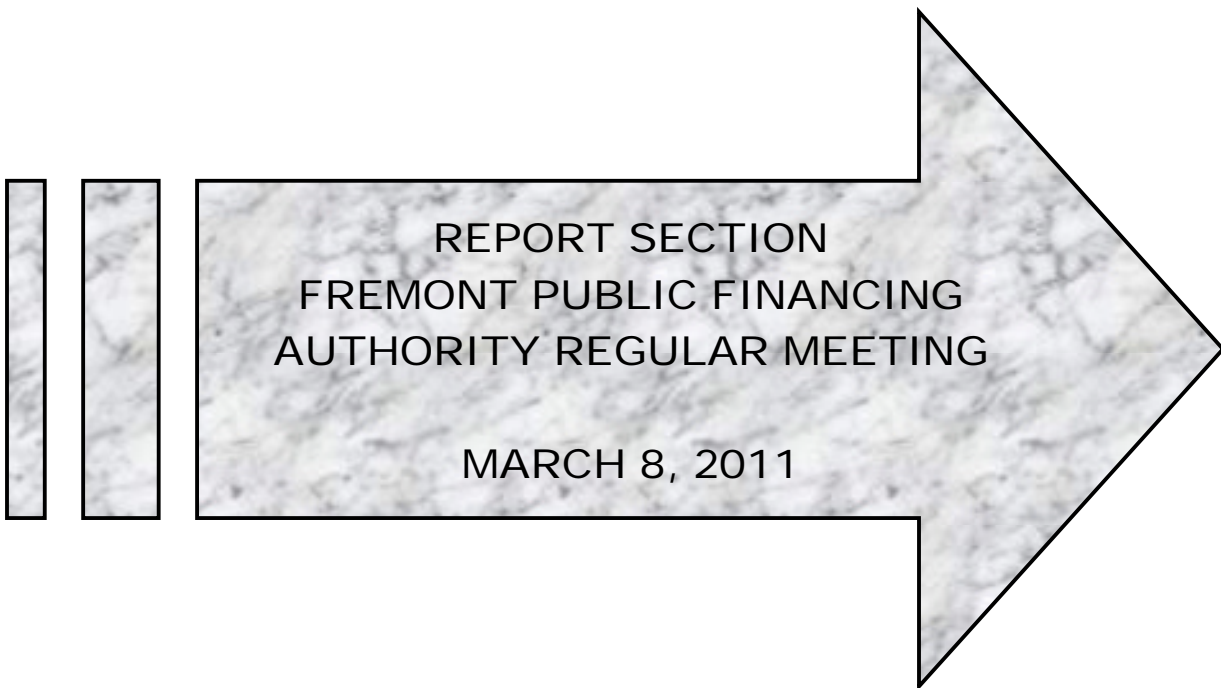
Name:	Elisa Tierney	Harriet Commons
Title:	Redevelopment Agency Director	Director
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RECOMMENDATION: Provide direction to staff to EITHER:

1. Not proceed with the sale of tax allocation bonds at this time, OR
2. Sell the bonds as currently structured.

**6. ADJOURNMENT**







## 5.1 UPDATE ON REDEVELOPMENT AGENCY ISSUANCE OF TAX ALLOCATION BONDS

### Update on Proposed Issuance of 2011 Redevelopment Agency Tax Allocation Bonds

#### Contact Person:

Name:	Elisa Tierney	Harriet Commons
Title:	Redevelopment Agency Director	Director
Dept.:	Housing and Redevelopment	Finance
Phone:	510-494-4501	510-284-4010
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**A companion report is on tonight's agendas for the City Council and the Redevelopment Agency of the City of Fremont.**

**Executive Summary:** On January 17, 2011, the City Council and the Redevelopment Agency Board approved the issuance of up to \$140 million of tax allocation bonds by the Redevelopment Agency for the construction of infrastructure projects, the most significant one being the Irvington BART station. The bonds were scheduled to price on February 24, but that did not occur because of uncertainty created by the posting of proposed legislation to "disestablish" redevelopment agencies on the State Department of Finance's website late in the day on February 23. Staff is providing an update on the current status of this transaction, and requesting feedback and direction from Council, the Agency Board, and the Public Financing Authority Board about how to proceed.

**BACKGROUND:** On January 10, 2011, the Governor released his 2011/12 budget proposal. A major provision of the Governor's budget proposal that affects local government is the proposed elimination ("disestablishment") of redevelopment agencies throughout the State by July 1, 2011. In order to accomplish such rapid termination of redevelopment as part of the overall budget package, the proposal contemplates urgency legislation in March 2011, which needs a 2/3 vote in both houses to become effective immediately and suspend Agency operations. The elimination of redevelopment agencies as of July 1, 2011 would mean the following:

- Full Agency closure by July, 1, 2011. There would be no new allocation of tax increment revenues in future years, with the exception of sufficient future property taxes needed to meet future scheduled payments of each agency's existing obligations and debt service. A local "successor agency" would be established, whose purpose would be solely to receive sufficient future property taxes to make payments to retire the agency's existing debts and obligations.
- No new obligations/commitments of tax increment by agencies effective upon enactment of urgency legislation, anticipated in March; and
- Unspent and unencumbered Housing Fund balances would be transferred to the local housing authority (in the case of Fremont, likely the Housing Authority of the County of Alameda), with no future funding for affordable housing proposed.

In order to effectuate his proposal, the Governor anticipates the passage of comprehensive urgency legislation in March, which would, in effect, freeze the ability of agencies to take on new obligations and debt service. Proposed legislation was posted on the State Department of Finance's website late in the day on February 23, 2011. This proposed legislation has not yet been introduced, nor has an author been identified. Nevertheless, it has had a significant impact on issuance of redevelopment tax allocation bonds.

**DISCUSSION/ANALYSIS:** The proposed legislation provides 27 pages of detail about the Governor's proposal to "disestablish" redevelopment agencies. The Joint Budget Conference Committee of the Legislature convened late in February (after the posting of this proposed legislation), with a goal of having its work on the Governor's budget proposal completed by March 10, 2011. To date, there have been no new developments on the redevelopment front, although staff will be prepared to provide a verbal update should something occur between the time of preparation of this staff report and the Council meeting.

Although bond counsel has concluded that tax-exempt bonds could be issued prior to the effective date of this proposed legislation, it is not clear that bond proceeds could ultimately be spent on the infrastructure improvements included in the Agency's work plan and approved by the Council and Agency Board. Following are the key components of the proposed legislation:

- Upon adoption of the legislation, agencies would be prohibited from entering new, or amending existing, contracts and, as of July 1, all new redevelopment activities would cease.
- Non-housing RDA assets would be assigned to a successor entity to wind up the Agency's affairs (the successor entity can be the City).
- Activities of the successor entity would be subject to review by an oversight board, which would consist of representatives of the affected taxing entities (the County, the City, schools, special districts).
- Payments made by the successor entity would require approval by the oversight board.
- The oversight board may challenge activities retroactively to January 1, 2011, including bond sales and developer agreements (DDAs, leases, etc.), for up to 3 years.

There is an alternative "big 8 mayors" compromise proposal that has been suggested. Under that proposal, redevelopment agencies would remain in existence. However, the agencies would give up 5% of tax increment to the State in exchange for 10 years of additional life. Whether this proposal will be considered by the Joint Conference Committee is unknown at this time.

There are two alternatives staff has identified for Council consideration. One is to not proceed with the issuance of these tax allocation bonds, the other is to proceed. The pros and cons of each option are discussed below.

**Option 1 – Do not proceed with the sale of tax allocation bonds at this time.** Instead, wait for the State to enact budget legislation and remove the uncertainty that currently exists around this transaction. The advantages of this option are as follows:

- If redevelopment is "saved", the bond sale would likely be able to proceed with more favorable interest rates. This would result in more tax increment available for projects.

- Deferring bond issuance also provides more flexibility to react to any compromise legislation that might require sharing a portion of tax increment.

A disadvantage of waiting is that, if legislation is enacted consistent with the Governor's proposal, there will be no money available for projects, including the Irvington BART station.

**Option 2 – Sell the bonds as currently structured.** In order to mitigate the risk that bond proceeds might not be able to be spent on projects, the City and Agency would need to have enforceable contracts in place with third parties (such as BART). An even stronger mitigation would be to have completed a substantial portion of the project by the effective date of the legislation, although that is likely not possible. An advantage of this option is that \$124 million of infrastructure projects would be funded if the legislation does not pass, or it passes and is subsequently invalidated.

The disadvantages of this option are as follows:

- The uncertainty created by the Governor's budget proposal has resulted in higher interest rates in the tax-exempt debt market.
- There would be less flexibility to react to any compromise legislation that might be enacted.
- Although tax increment would be committed to pay debt service on the bonds, it might not be possible to actually build the projects.

**FISCAL IMPACT:** The Redevelopment Agency currently receives approximately \$34.5 million in tax increment revenue annually. If no new Agency indebtedness is issued and this revenue instead were to be distributed to the City and other taxing entities under an enacted form of the Governor's budget proposal, the City's share would be approximately \$5.2 million. This assumes the Agency has no other existing outstanding debt and the current Agency/City Master Public Improvements Agreement is not followed in the future. This General Fund revenue would be unrestricted and the City would be free to spend the revenue however it chooses.

If the Agency were to issue bonds that are recognized as a pre-existing debt under an enacted version of the Governor's budget proposal, the pool of available property tax revenue would be reduced by an amount that the successor entity would first draw down to pay the annual bond debt service, with a resulting impact on the City's General Fund. With annual debt service of \$10.3 million, the net property tax revenue to be distributed among local governments after payment of the proposed bond debt service would be \$34.5 million minus \$10.3 million, or \$24.2 million. While this would mean a decrease of \$1.5 million in net tax revenue to the City's General Fund (\$3.7 million instead of \$5.2 million), \$124 million in additional City capital projects, most notably the Irvington BART station, would be secured.

However, if it is determined that bond proceeds cannot be spent for the identified projects identified, the result would be that tax increment will have been committed for debt service for 10 years (the earliest date at which the bonds could be called and paid off) and all taxing entities, including the City, will have been deprived of property taxes, with no infrastructure projects to show for it.

**ENVIRONMENTAL REVIEW:** None required.

**ENCLOSURE:** None

**RECOMMENDATION:** Provide direction to staff to EITHER:

1. Not proceed with the sale of tax allocation bonds at this time, OR
2. Sell the bonds as currently structured.